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PROGRESS REPORT ON THE ESTABLISHMENT OF AFRICAN MONETARY FUND

I. INTRODUCTION

1. The African Heads of State and Government adopted in April 1980 the Lagos Plan of Action for the economic development of Africa during the period 1980-2000. The Lagos Plan of Action emphasized, among other things, the importance of establishing an autonomous African monetary and financial institution in order to encourage and promote monetary and financial co-operation at the subregional and regional levels. The African Heads of State and Government also adopted six years later Africa's Priority Programme for Economic Recovery, 1986-1990 (APPER) which, inter-alia, re-affirmed the need for "strengthening regional monetary and financial institutions and called for measures to be undertaken for an early establishment of the African Monetary Fund". The United Nations Special Session of the General Assembly on the Critical Economic Situation on Africa, held in June 1986, adopted the United Nations Programme of Action for African Economic Recovery and Development 1986-1990 (UN-PAAERD) which also called for the "intensification of efforts to be made for accelerating the establishment of an African Monetary Fund."

II. BACKGROUND TO THE PROPOSED AFRICAN MONETARY FUND

2. The United Nations Economic Commission for Africa (ECA) has over the years been extensively involved in promoting monetary integration in Africa and has viewed such a process as an integral part for achieving collective self-reliance and a process which should proceed in tandem with efforts at economic integration in other fields, such as trade, transport, communications etc. Accordingly, at subregional level the Commission was instrumental in the establishment of a number of multilateral payments systems. These institutions are in no doubt playing catalytic roles in the overall integration process of our continent. However, the process of monetary and financial integration in the continent remains one of the most fragmented: politically, economically as well as in the monetary and financial fields.

3. It is against this background, that studies were commissioned to look into the feasibility for the establishment of an African Monetary Fund. These studies which were completed in 1984 were discussed at three separate meetings of Experts from Ministries of Finance and African Central Banks. The recommendations emanating from these meetings were submitted to the Second Meeting of African Ministers of Finance held in Libreville (Gabon) in June 1986, at which the Governors of African Central Banks were invited. The Ministers and Governors, after considering the Feasibility Study and the Recommendations, resolved to establish a "Ministerial Committee of Libreville on the Establishment of an African Monetary Fund" to examine in detail technical issues which remained unresolved, which included:

(i) Capital size of the proposed African Monetary Fund, including the questions of the size of the initial authorized capital and the currency/currencies in which subscriptions were to be made;

(ii) Determination of the size of the Board of Executive Directors;

(iii) Determination of eligibility criteria for membership in the Fund; and

(iv) Whether or not non-African members would be allowed to participate.

4. The Ministerial Committee of Libreville held its first meeting in Libreville, Gabon from 31 March to 2 April 1987. The Committee did not resolve all the outstanding issues, but nonetheless, it endorsed the recommendations of Experts that the initial authorized capital stock of the Fund could be set at 2 billion African Units of Accounts (AUA) and of this AUA 750 million could be called-up capital, payable during the first five-years. Furthermore, the Committee agreed that out of the AUA 750 million called-up capital payable during the first five years of the establishment of the Fund, AUA 500 million could be earmarked for regional members and AUA 250 million for non-regional members (if they were to be allowed to subscribe to the Fund).

5. The first meeting of the Ministerial Committee of Libreville, however, failed to reach a decision on the following issues:

(i) The criteria for determining regional membership of the Fund;

(ii) The currency/currencies to be used in making subscriptions to the capital stock especially the issue of whether countries should be allowed to use local currency;

(iii) Whether membership should be open to non-regional members.

6. The Third session of the Conference of African Ministers of Finance held in Blantyre, Malawi from 6 to 8 March 1989 decided to re-activate and expand the Ministerial Committee of Libreville and mandated the Committee with the task of examining in great detail all the outstanding issues relating to the establishment of the Fund and take all necessary measures to ensure the speedy establishment of the Fund. The composition of the Committee was enlarged to include: Gabon, Central African Republic, Ethiopia, Malawi, Morocco, Sierra Leone, Tunisia, Uganda, Zambia, the Governors of Central Banks of the Central African States (BEAC) and

Central Bank of West African States (BCEAO), the African Development Bank (ADB), the Organization of African Unity (OAU) and the African Centre for Monetary Studies (ACMS). The Meeting also mandated the Minister of Finance of the Peoples Democratic Republic of Ethiopia (PDRE) to serve as convener and Chairman of the meetings of the Enlarged Ministerial Committee of Libreville, with the Economic Commission for Africa (ECA) as the Secretariat and co-ordinator of such meetings.

7. The First meeting of the Enlarged Ministerial Committee of Libreville was held in Addis Ababa from 11 to 12 April 1989. The meeting resolved to establish an Ad-Hoc Technical Sub-Committee of Governors of African Central Banks of the members of the Enlarged Ministerial Committee to look into the outstanding issues. The Sub-Committee was given the leverage to co-opt as members Governors of Central Banks of countries that are not members of the Enlarged Ministerial Committee. The terms of reference of the Ad-Hoc Technical Sub-Committee were stipulated as follows:

(i) To carefully examine the objectives, institutional framework and operational modalities of the African Monetary Fund, taking into account the most recent developments in Africa's monetary and financial situations so as to determine an appropriate framework for establishing the Fund;

(ii) To examine the experiences of other regions in setting up similar institutions and how these might assist African countries in effectively dealing with their monetary and financial problems;

(iii) To prepare a comprehensive report on the technical aspects of the unresolved issues based on the thorough examination of the Reports of the various meetings as well as the views expressed by the Enlarged Ministerial Committee of Libreville and to propose practical solutions as well as alternative options by which the African Monetary Fund might be established without delay;

(iv) To examine the objectives, functions and structure of the African Centre for Monetary Studies with a view to making it the nucleus of the African Monetary Fund.

8. The First meeting of the Enlarged Ministerial Committee of Libreville also requested for, further in-depth studies to be undertaken on the objectives, structure, operations and resources of the proposed African Monetary Fund, in the light of current developments in the financial and monetary fields; and undertake extensive consultations with African subregional monetary and financial institutions to seek practical solutions to the problems experienced in the efforts to establish the African Monetary Fund.

III. FOLLOW-UP ACTIVITIES

9. Pursuant to the decisions of the first meeting of the Enlarged Ministerial Committee of Libreville, the United Nations Economic Commission for Africa undertook extensive consultations with subregional and regional monetary and financial institutions inside and outside Africa and this process of consultations culminated in the ECA secretariat convening in Addis Ababa from 27 November to 1 December 1989, the Ad-Hoc Experts Group Meeting on the Establishment of an African Monetary Fund.

10. The Ad-hoc Experts Group Meeting was attended by eminent persons in the field of money and development finance drawn from the following institutions in Africa, Asia, Latin America and North America: Central Bank of Nigeria, Central Bank of Egypt, Central Bank of Mauritius, African Development Bank (ADB), African Centre for Monetary Studies (ACMS), Andean Reserve Fund, Arab Monetary Fund, National Bureau of Economic Research Inc. (USA), University of Jadavpur (India), University of Libreville (Gabon), University of Dakar (Senegal), Organization of African Unity (OAU), Meridian International Bank Ltd.. Other participants included representatives from Central Banks of Central African States (BCEAC), Central Banks of States (BCEAO), Preferential Trade Area for Eastern and Southern African States (PTA), West African Clearing House (WACH), Central African Clearing House (CACH), The Association of African Development Financing Institutions and UNDP. The results of the ECA consultations and the Experts Group Meeting was the revision of the Feasibility Study on the Establishment of an African Monetary Fund.

11. The second meeting of the Enlarged Ministerial Committee of Libreville on the establishment of an African Monetary Fund (AfMF) was held in Addis Ababa, Ethiopia from 29 to 30 November 1990. The meeting was preceded by that of the Ad-Hoc Technical Sub-Committee of Governors of African Central Banks held from 26 to 28 November 1990. The meetings reviewed the up-dated Feasibility Study on the Establishment of the African Monetary Fund, with special emphasis on the rational for the proposed Fund; its objectives, functions and technical operations; the proposed organizational structure; financial resources that would be required to establish it; broad lending guidelines the Fund would have to observe; and an alternative scenario for establishing such a Fund, including the possibility of using the African Centre for Monetary Studies (ACMS) as a nucleus for such a Fund.

12. In discussing the rationale and objectives for the establishment of the proposed African Monetary Fund, the Ministers and Governors of African Central Banks, members of the Enlarged Ministerial Committee of Libreville, were guided by three important factors. First, recent developments in the international economy, where there has been a marked acceleration in efforts at

subregional and regional economic, monetary and financial integration. Second, over a number of years subregional economic and monetary institutions have been established in Africa. In the monetary and financial fields these have included: the PTA Clearing and Payments House, the Central African Clearing House (CACH) and the West African Clearing House (WACH). It is a natural progression, therefore, that the continent should consider the establishment of an African Monetary Fund which will promote regional monetary and financial integration. Third, most African economies are currently going through a serious crisis, exacerbated by exogenous factors as well as drought and desertification. The Ministers and Governors considered carefully all aspects relating to the establishment of an African Monetary Fund and agreed that under prevailing circumstances a fully-fledged fund could not be established. Under the prevailing economic conditions in Africa such a Fund would not be financially feasible and would not be able to mobilize incremental resources needed by member States to finance balance of payments imbalances. The Ministers and Governors agreed that immediate arrangements could be made whereby subregional and regional monetary and financial institutions could perform some of the functions of the proposed Fund. The full text of the conclusions and recommendations of the Second Meeting of the Enlarged Ministerial Committee of Libreville follows:

A. CONCLUSIONS

13. The Enlarged Ministerial Committee of Libreville carefully considered all aspects relating to the establishment of the African Monetary Fund. It agreed that under prevailing circumstances a fully-fledged Fund could not be established. However, immediate arrangements could be made whereby subregional and regional monetary and financial institutions could perform some of the functions of the proposed Fund. In this respect, it was agreed to recommend to the Conference of African Ministers of Finance that the African Centre for Monetary Studies should be strengthened to carry out "Policy analysis" and provide assistance to member States in drawing up credible economic programmes. To this end, it was agreed that the African Development Bank should be requested to undertake balance-of-payment support, using its credit-worthiness to mobilize external resources. Similarly, it was agreed that subregional and regional monetary and financial institutions should be strengthened to carry out "policy co-ordination" among member States.

14. The meeting agreed that the existing economic and financial conditions in Africa were not conducive to the establishment of a fully-fledged Fund. Nonetheless, such a proposition could be considered in future.

15. In broad terms, the meeting reached consensus that the main objective of the Fund would be to improve resource flows and co-

operation among monetary and financial institutions in the African region and to promote the economic integration of the African economies.

16. Although the Committee appreciated the need for an institution such as an African Monetary Fund, it was nonetheless, felt that the Feasibility Study had not provided convincing arguments for a fully-fledged African Monetary Fund to be established at this time but that this could be considered in the long-term. For the moment, an alternative arrangement was proposed by which they recommended that the African Development Bank (ADB), the African Centre for Monetary Studies (ACMS), and subregional monetary and financial institutions should undertake the following inter-related functions connected with providing balance-of-payment support and technical monetary and financial support to member States:

(a) African Development Bank could be consulted to provide balance-of-payments support to member States. Resources for such financing should be raised by that institution;

(b) The African Centre for Monetary Studies should be strengthened to carry out its mandate to develop capacity for policy analysis in Africa and to assist member States in drawing-up credible economic programmes. The Centre could also be requested to act as a forum for co-ordination of Africa's collective action in international monetary and financial issues;

(c) Sub-regional monetary and financial institutions could be assigned the role of "policy co-ordination" among their member States as a basis for continent-wide monetary co-operation.

17. The meeting concluded that if a fully-fledged Fund were to be established now, the following criteria would have to be satisfied:

(i) The initial authorized capital of the Fund should be US$2.0 billion and the paid-up capital should be US$1.0 billion and payable in three years, according to the following formula:

1st Year:	US$500 million (50 per cent)
2nd Year:	US$250 million (25 per cent)
3rd Year:	US$250 million (25 per cent)

(ii) The African Development Bank (ADB) formula for membership and voting rights should be adopted for membership in the proposed African Monetary Fund for the time being. If this formula is changed before the establishment of the Fund the issue would have to be reviewed again. The ADB formula is as follows:

(a) Any African country which has the status of an independent State may become a regional member of the Bank. It shall acquire membership in accordance with paragraph 1, or paragraph 2 or article 64 of the ADB Agreement;

(b) The geographical area to which the regional membership and development activities of the Bank may extend (referred to in this Agreement as "Africa" or "African", as the case may be) shall comprise the continent of Africa and African islands;

(c) Non-regional countries which are, or become, members of the African Development Fund, or which have made, or are making, contributions to the African Development Fund under terms and conditions similar to the terms and conditions of the Agreement Establishing the African Development Fund, may also be admitted to the Bank, at such times and under such general rules as the Board of Governors shall have established. Such general rules may be amended only by decision of the Board of Governors by a two-thirds majority of the total number of Governors, including two-thirds of the Governors of non-regional members, representing not less than three-fourths of the total voting power of the member countries.

(iii) The Board of Governors of the Fund should be composed of Ministers of Finance of member States and/or Governors of Central Banks. Furthermore, voting should be based on a member's quota in the Fund and that there should be a provision allowing for voting by proxy on certain urgent issues;

(iv) All capital subscriptions should be made in convertible currencies in order to maintain the viability and credit worthiness of the Fund;

(v) Non-regional members should be allowed to subscribe the capital of the Fund but this should be limited to 30 per cent.

B. RECOMMENDATIONS

18. The Committee recommended that taking into account resource constraints facing member States, the establishment of a fully-fledged African Monetary Fund is not a viable proposition at this time. However, there was a consensus that this proposal could be re-activated at a later date, say, after five years.

19. The Committee agreed to submit the following recommendations to the Conference of African Ministers of Finance:

(i) There is a need for an institution to be established to deal with regional monetary and financial issues. However it is not financially feasible at present to establish a fully-fledged African Monetary Fund because of prevailing economic and monetary problems facing African countries, and the difficulties in making subscriptions to the capital of the Fund. Moreover, since it has been determined that the Fund could not mobilize incremental resources at this stage, the rationale for such a Fund could not currently be reaffirmed. Therefore, a gradual approach to its establishment is being suggested. In the interim period, an alternative arrangement had to be made by which some of the functions of the proposed Fund should be carried out by the African Development Bank, the African Centre for Monetary Studies, and subregional monetary and financial institutions;

(ii) The proposal for the establishment of the fully-fledged Fund should be reviewed after a period of five years and concrete proposals should be submitted to African Ministers of Finance on whether or not a fully-fledged Fund should be established. Accordingly, the current Ad-hoc Technical Sub-Committee of Governors should become a Standing Committee to review the issues during the transitional period;

(iii) The African Development Bank, should be called upon in conjunction with the United Nations Economic Commission for Africa, to carry out a technical study on the possibility of the ADB providing balance-of-payments financing to member States and to update the Feasibility Study for Establishing the African Monetary Fund. These studies could be co-ordinated by the Joint Secretariat of the ADB, ECA, ACMS and OAU.

20. Further follow-up activities by the United Nations Economic Commission for Africa (ECA) will include:

(i) Carrying out a technical study in conjunction with the African Development Bank (ADB), on the possibility of ADB providing balance-of-payments support (second window) to member States during the transitional period for the establishment of the proposed Fund;

(ii) Carrying out consultations with the African Centre for Monetary Studies (ACMS) and subregional monetary and financial institutions on possibility of these

institutions undertaking during this transitional period some of the functions of the proposed Fund;

(iii) Reporting to the next Conference of African Ministers of Finance on the progress made towards the establishment of the African Monetary Fund;

(iv) Updating the Feasibility Study on the proposed Fund.

21. In accordance with the recommendations of the Enlarged Ministerial Committee of Libreville on follow-up action which the Economic Commission for Africa (ECA) had to undertake in accelerating activities related to the establishment of the proposed African Monetary Fund, the ECA secretariat wrote to the African Development Bank (ADB) forwarding the recommendations of the Libreville Committee and to explore the Bank's initial reaction to the proposal that it provide balance-of-payments support to African States during the transitional period leading up to the establishment of the Fund. The ECA secretariat has not as yet had the Bank's response.

22. As to the secretariat making a follow-up with subregional financial institutions to evaluate their capabilities of undertaking some of the functions of the proposed Fund in the transitional period, the ECA secretariat has been unable to do so this year due to budgetary constraints. However, in the new ECA Biennium (1992-1993) the secretariat will try to undertake these missions.